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ACCOUNTING FOR SMALL BUSINESS — By Barbara I. Rausch, CPA

HOW TO SUCCEED AS A SELF-EMPLOYED ACCOUNTANT WITH LOTS AND LOTS OF TRYING — By Leonore Cann, CPA

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MAJOR ARTICLES

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EDITOR'S NOTES

We note that the major articles in this issue are basically concerned with the problems of the small businessman.

The first one, *Accounting for Small Business*, considers areas in which the small businessman needs professional accounting help both when he commences to set up his business and later when he is trying to develop ways to operate more economically with a view to increasing profits.

The second one, *How to Succeed as a Self-Employed Accountant with Lots and Lots of Trying*, is an exposition of the approach that at least one CPA has taken toward an accounting practice as a sole practitioner.

As we review these two papers, we recall the oft-repeated prediction that the small business stands in dire peril of being gobbled up by the conglomerates and that the sole practitioner and small CPA firm are waging a losing battle against the inroads of the "big eight" and the other large CPA firms.

It is our opinion, however, that these blue views of the future for the little man are unduly pessimistic for at least two reasons. First, it seems to us that the assimilation of the small business and the small practitioner by their larger counterparts are a normal evolutionary process, an evidence of progress and growth and a happening not to be viewed with alarm.

In this respect we echo the opinion of Marvin Stone, CPA, past president of the American Institute of CPA's, as stated in the July/August, 1968 issue of *THE CPA*.

Mr. Stone took exception to the theory that the local practitioner is being squeezed out of the market, and cited the services that the local practitioner can appropriately render for the small business as contrasted to the services needed by large businesses which must be rendered by appropriately larger CPA firms.

Secondly, so long as we are a people with a competitive spirit there will be the ever new crop of new businesses and of new professional practices to replace those that are absorbed into larger entities. Will and Ariel Durant in their profound and original book, "The Lessons of History," describe history as a fragment of biology and, "the first biological lesson of history is that life is competition—peaceful when food abounds, violent when the mouths outrun the food."

One indication of the competitive spirit might be noted from the list of "new incorporations" put out by the Chamber of Commerce of the City of Cincinnati for the month of January, 1969. The record for this one city showed 160 new corporate groups for that month. If this listing is in any way typical of other areas, the evolutionary process is producing small business at a record-breaking rate.

BY SUBSTITUTING ADDITION-SUBTRACTION FOR DOUBLE-ENTRY BOOKKEEPING, IS RED CHINA'S GREAT LEAP FORWARD STEPPING BACK?

Life in Red China holds few charms for bourgeoisie Americans. Still, businessmen baffled by their accountants' double entry bookkeeping system will sigh with envy when they learn that the authors of the Great Leap Forward have outlawed the debit-credit method (left side, debit—right side, credit) for a system of addition-subtraction.

"Red China has recently undertaken the development of new patterns and concepts of accounting which owe nothing to the West," writes Dr. Paul Kircher, chairman of the Accounting Division, University of California, Los Angeles.

According to Professor Kircher, the Peking publication Ta-kung Pao put it this way:

"For the last 16 years we have followed a devious course of groping in the dark field of accounting work. We have gained the experience and the lessons. In the early days of the liberation, owing to lack of experience we basically employ the set of bookkeeping methods used under capitalism in old China, and later on we copied a set of bookkeeping methods from foreign countries. These methods were so complicated that they produced a certain unfavorable effect on the development of production circulation and the construction undertaking. As a result, the broad masses of accounting and economic workers all fervently hoped for an accounting reform, one after another carrying out innovations and experiments in an attempt to create a new accounting theory and bookkeeping method in the interest of our economic construction."

Dr. Kircher claims that the Ministry of Commerce decided a year ago to introduce a revolutionary reform to abolish the debit-credit bookkeeping method and adopt the addition-subtraction method. In the minds of Communist leaders it represents the first step in the establishment of an accounting theory and system of socialist commerce.

He quotes Red newspaper sources as stating:

"The appearance of the addition-subtraction bookkeeping method shows that the debit-credit bookkeeping method—which has for many years been flaunted as 'most scientific,' 'most perfect,' and sacrosanct—not only should,

(continued on page 12)

ACCOUNTING FOR SMALL BUSINESS

The author points up the major areas where the small businessman needs professional accounting help to set up his business in proper form and to operate it with a reasonable expectation of profit.

Barbara I. Rausch, CPA
Columbus, Ohio

An appropriate beginning for this paper is a definition of "small business." According to Section 1244 of the Internal Revenue Code, a small business corporation could have up to $1,000,000.00 in equity capital, which is not really small business. Traditionally, it seems, small business is thought of as the sole proprietorship, the corner grocery store, the filling station, and professional partnerships. Some employees would be quite surprised to find their employer's business referred to as a small business. It would appear most reasonable that a business would be classified as "small" either because of volume of business or because of its ownership, such as sole proprietorships, partnerships and closely held corporations.

Rumor has it that once upon a time it was possible for a man to conduct his business out of his hip pocket. His net profit was simply the cash he had left over after he paid all his bills. With the advent of income taxes, various and sundry property and franchise taxes, and with the additional burden of acting as a withholding agent for Federal, state and local taxing authorities, this method of operation is impossible today. Present competitive business conditions make record-keeping mandatory, even if the taxing authorities did not require it.

Failures

Dun & Bradstreet's 1964 statistical study, "The Failure Record through 1964," indicates that 91.9% of all failures in business are attributable to lack of management know-how and experience. One cannot help but wonder if better accounting and more current and intelligent management reports could have saved a number of these businesses.

Unfortunately, the small businessman is prone to look upon accounting as a time-consuming nuisance and inconvenience. Yet he has the greatest need for a workable accounting system that will give him promptly the necessary information to make management decisions and to avoid some of the pitfalls of business operation.

At the Beginning—Decisions

Fortunate, indeed, is the accountant who can get in at the beginning of a new business. He is in an excellent position to advise and assist the businessman in the many decisions he has to make at the outset as well as continuing with the operating of the enterprise.

Form of Entity

One of the first decisions is with regard to the form in which the business is to be conducted. Of the three choices—sole proprietorship, partnership or joint venture, and corporation—the latter is the most popular. The corporate form offers some distinct advantages, but there are also disadvantages which should be considered before making a definite decision.

The most widely recognized corporate advantages are the limited liability, free transferability of ownership and continuity of existence. But at least equally important are some of the features which the prospective new businessman may not know about, such as the choice of a natural business year and the employee status of the owner as opposed to the employer status as a sole proprietor or partner.

Even with the liberalized provisions of the "Keogh Bill," a corporate pension or retirement income plan is hard to match. With the business becoming a separate entity in the

BARBARA I. RAUSCH, CPA, is a senior staff member of the Columbus, Ohio office of Peat, Marwick, Mitchell & Co. She passed the CPA examination at her first sitting in 1961 after studying with the correspondence course of the International Accountants Society "to brush up on my accounting knowledge."

Born and educated in Berlin, Germany, she moved from her first job—budgeting and meal planning for a cafeteria (employer—the German Army) to interpreter, court reporter and claims adjuster for the American Armed Forces in West Germany after the arrival of the American troops. Upon coming to the United States in 1956, she commenced in the insurance field but switched to accounting in pursuit of more lucrative opportunity.

Miss Rausch is presently serving the Columbus Chapter of ASWA as second vice president and is a member of AICPA, AWSCPA and the Ohio Society of CPA's.

corporate form, portions of the ownership can be distributed to family, particularly children, over a period of time and be integrated with estate planning.

Of course, where there's sun, there is shadow, and operating in the corporate form has its disadvantages, too. The most immediate and obvious is that it costs money to organize a corporation and keep it alive, i.e., the annual franchise tax. The double taxation of profits, first at the corporate level and secondly at the shareholder level upon distribution of dividends, has discouraged many businessmen from forming a corporation. However, the accountant and tax practitioner can advise of means by which such double taxation can be minimized. One is for profits to be distributed to the shareholder in the form of compensation, bonuses and commissions. This has its limitations, however, since the test that must be met is the "reasonableness" of compensation of officer-shareholders in closely-held corporations.

Another method of avoiding double-taxation of profits and dividends is through the election to be taxed under Subchapter S of the Revenue Code. Here the question of whether or not the owner's compensation is reasonable has no significance, since he is taxed on the total profits. Where the corporation has several stockholders rendering various degrees of actual services, the Internal Revenue Service has authority to establish "reasonable compensation" in the determination of profits allocable to each stockholder. Subchapter S election would permit the distribution of cash, whereas in a corporation not electing Subchapter S, the cash available is not as readily distributable due to the taxation feature.

There are some limitations on Subchapter S, i.e., some types of operations are precluded from the election, especially those with "passive" income; capital losses are still the loss of the corporation and do not "flow through" to the shareholders; and the election puts some limitation on the free transferability of the shares of stock.

Cash or Accrual Basis

Whatever form of business is chosen for the new enterprise, the owner has many more decisions to make. Before filing the first income tax return, the basis for reporting income must be established, whether it be cash basis or accrual basis. In certain instances, such as where inventories are a factor, the decision is academic, for he is required to use the accrual basis, at least down to gross profit.

The Internal Revenue Code now recognizes "hybrid" methods, under which operating and other expenses could still be handled on the cash basis, even though cost of sales must be on the accrual method because of inventories required in the business. Where the intention is to be on the accrual basis eventually, it would be well to begin with this method. Aside from the fact that the Tax Commissioner's consent is required for a change in accounting methods, the year of change may prove to be a costly one and can invite an IRS examination.

Capital Requirements

One of the most important questions deals with the capital requirements of the new enterprise. A careful appraisal must be made of starting expenses and working capital requirements to cover the period in which the business can generate capital out of current earnings. Lack of liquid working capital is one of the most common causes of small business failures.

In cases where the initial capital requirements are high the question arises: How much of this money should be permanent capital and how much should be loaned to the corporation and repaid as soon as the business is on its feet? A loan should of course be a bona fide, arms-length transaction and the business should pay a reasonable interest for the loan. Immediately two other questions come up: Can the business afford to pay the interest? Does it need the expense? In some cases it might be better to have a second class of stock, such as cumulative preferred stock, rather than long-term debt, with redemption provisions much the same as the repayment of long-term debt. However, caution must be used in the redemption of preferred stock in a closely-held corporation, since such redemptions could be viewed as a dividend where the redemption does not result in a substantial change in ownership ratios.

The Internal Revenue Service is also interested in this area with the varied definitions of "thin" corporations. The effect of having the "thin" corporation questioned is that the purported interest payments on shareholder loans may be disallowed and reclassified as dividend distributions, if the loans are too large in proportion to equity capital. In such cases, the purported loans may be classified as equity investment, and any repayments are considered dividend distributions until retained earnings are exhausted.

Investment in Equipment

Also in the area of capital, and cash requirements, is the matter of the investment in equipment. The business needs to make a realistic estimate of its requirements, since overinvestment in equipment is a major cause

TWENTY-FIVE YEARS AGO—in THE WOMAN CPA

INDIVIDUAL INCOME TAX BILL OF 1944—This bill is an answer to the universal demand of the citizens of the Nation to simplify the methods which the government uses to collect Income Taxes. That the proposed bill is the right answer is open to question. The bill is only an amendment to the Internal Revenue Code, and like most amendments only further complicates and confuses. It was rushed through in such haste to satisfy the demands of the voters at home, that there was not sufficient time to make a study of the entire tax structure, and give it the thorough overhauling it was in need of. The voters at home may learn that what seemed to them to be a step toward simplification involves more computations than in former years.

The writer is inclined to agree with a recent article in *Taxes*, a Commerce Clearing House publication, that there can be no real simplification of collecting income taxes unless the taxpayer is willing to forego many of his constitutional and legal deductions. If we are to expect the government to figure our taxes for us, then we must pay for the privilege. The less we do for ourselves and throw upon government employees, the more controlled we shall become. When people cease to act and think for themselves, the opportunity to do so shall be withdrawn from them. It is surely not asking too much of the law makers to prepare a tax bill which would be comprehensible to the average man or woman, that would provide a form that would ask for the gross income, ordinary deductions, and provide a graduated percentage, one figure not two or three, to use to arrive at the amount of the tax due.

From "TAX NEWS" by Alberta R. Crary, Whittier, California
June, 1944

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of cash shortage. The possibilities of leasing equipment rather than purchasing it should be investigated. The lease expense will usually be higher but one would not have to contend with obsolescence or idle equipment with a flexible and well-planned lease arrangement. The technical aspects of equipping the new enterprise must be left to others to advise, but accountants can assist the new business with cash flow and profit and loss projections.

Location

Oftentimes the location of a new business is a major factor in success or failure of a new business. The market, the availability of labor, the labor climate, and, last but not least, the various state, county and municipal taxes must be considered.

Accounting System

In addition to the decisions made to this point, the decision for a good accounting system is still required. There are three factors for a good accounting system.

(a) It must be simple. A cumbersome system invites short-cuts and by-passing of the controls that are basic to an effective system.

(b) It must be workable with the quantity and quality of the company personnel.

(c) It must be understood by the persons working with it on a day-to-day basis and by management through the reports produced. Only if these conditions are met will the accounting system serve its purpose.

Business Climate

Properly used, the balance sheet and the profit and loss statement are like a barometer. They tell the business climate very accurately and indicate fair weather ahead as well as storms in the making. Let's look at some of the potential trouble spots and danger signals where a good accounting system can help management make the right decisions.

Cash

First, and of singular importance, is cash. Even though the business is on the accrual basis, are bills being paid currently? Are discounts taken? Discounts take a direct route into net profit, and there are many businesses where discounts make the difference between making a profit, breaking even or losing money.

Is the cash being collected as it should or are receivables slow or sales falling off? There is no definite yardstick, but depending on the type and size of the business, cash equivalent of one to three months' operating expenses might be required as working capital.

Receivables

Accounts receivable assume an increasingly prominent position on the balance sheet in our modern credit-minded economy. Periodic aging of accounts receivable is one of the greatest helps to management, and the businessman should not begrudge the time it takes to prepare an aged list of accounts.

Accounts that are getting old, aside from affecting his cash position, can tell a businessman a great deal. The customer may be dissatisfied. He may have switched suppliers. Follow-up and service to the customer may not only speed up collection but also retain the customer.

If lag in collections is coupled with a reduction of sales volume, the businessman would be well advised to take a close look at his product line, his customer service and the type and quality of his contact with his customers. Accounts receivable records are quite simple to keep, from handposted customer cards to machine accounting, and the time spent in maintaining the records is well worth it.

Inventories

Like overinvestment in equipment, excessive quantities of inventory can spell trouble for any business, and especially for the new business. Although the accountants cannot advise the businessman what is excessive, he can assist with cost comparisons and cash flow projections showing small-quantity purchases with possible discounting versus large-quantity buying where the unit price might be less and where quantity discounts are offered.

As far as the recording of inventories is concerned, there are two choices. All purchases may be charged to inventory and cost of sales handled either by individual item or on the percentage-of-sales method by product lines. Another method is to charge all purchases to cost of sales with periodic adjustments for actual inventory on hand.

Regardless of which method of recording purchases is used, inventories should be verified by actual count as frequently as possible. Physical inventories not only disclose shortages, if any should exist, but they also show which product lines are moving well and which merchandise is just taking up space, becoming shop-worn and obsolete.

Where practical, the businessman should be encouraged to keep perpetual inventory cards. But even where this is not feasible, some type of inventory control should be established to protect this investment.

Liabilities

On the liability side of the balance sheet we have already touched on the long-term debt. Accounts payable should be controlled to avoid the loss of discounts, duplicate payments and overpayments. Vendors' cards are very handy, not only to indicate current balances but for comparison between sources of supply, prices, terms and volume of business done with various vendors. Accrued expenses should receive careful attention to assure matching of income and expense as closely as possible.

Revenues and Expenses

The outstanding points on the profit and loss statement are sales volume, gross profit, operating expenses and net profit. The businessman should compare his operation with published industry figures to see that he is getting his share of the market, and that his costs are in line. Where there are wide seasonal fluctuations in the sales volume, a supplemental line of products may be considered. Comparative statements for at least two years can be very enlightening.

Operating expenses can usually be classified into two categories, i.e., fixed and variable. Ordinarily, the businessman pays close attention to the operating expenses that he can control, but oftentimes the fixed expenses are the ones that cause trouble, and a close examination of these may indicate some possibility of controlling and cutting to increase profits.

In Summary

To summarize, the small businessman needs a good accounting system to provide him with reliable information on the results of doing business. It would appear that any business, however small, should seek professional assistance and advice for the initial set-up of a workable, understandable and useful set of accounting records. There are many systems available, from the hand-posted journals and general ledger to data processing equipment. There are many variations in between, such as write-it-once systems and hybrid methods of part hand-posting and part data processing.

The accounting system, regardless of type or size, must be informative, up-to-date and geared to the specific needs of the business and compliance with governmental reporting requirements. It must produce the information in such a manner that the businessman can understand it, use it, benefit from it and still be able to afford it.

HOW TO SUCCEED AS A SELF-EMPLOYED ACCOUNTANT WITH LOTS AND LOTS OF TRYING

This first person 'How To' paper sets out one accountant's formula for successfully becoming self-employed—via the "write-up" route and data processing.

Leonore Cann, CPA
Chicago, Illinois

Most of us, at one time or another, have toyed with the idea of joining the ranks of the self-employed. For those who may be strongly motivated in this direction, may I share with you some of my experiences.

About sixteen years ago I decided to set up my own shop. Mark Twain once said that to succeed in life you need two things—ignorance and confidence. I had a reasonable amount of confidence in my abilities as an accountant, and a great deal of ignorance about what lay ahead for me.

How To Start

Write-up work seemed to be the logical way to start. It had been my observation that write-up work tended to be the orphan of the accounting world that got kicked around in most public accounting offices. The newest junior generally was stuck with it until he was able to unload it on to someone else.

I also observed that otherwise capable accountants whose experience was limited to auditing, tended to be sloppy and not too capable as bookkeepers.

One other observation intrigued me. Despite the fact that the management of most public accounting firms seemed to down-grade write-up work, they nevertheless hung on to it. If it was unprofessional and a nuisance, why didn't they get rid of it? Upon inquiry you will find out that all of the "big eight" handle some write-up work. They may not seek it out, but neither do they turn away from it if the price is right.

There are an infinite number of small enterprises, generally closely held, and often quite profitable, that have little need for auditing services. What they do need is accounting assistance. Often there is not enough bookkeeping volume involved to warrant the hiring of a competent bookkeeper—even if one of these rare creatures could be found. It seemed to me that here was a largely undeveloped market just waiting for someone like me to come along. So this "Dona Quixote" set out to see what could be done about it.

Personal Assessment

I had a few things going for me. I was young enough to be flexible, and old enough to have some sense. There is also a lot of drive and determination in my make-up, along with some imagination and a talent for improvision. I was also self-supporting with no dependents, and therefore in a position to take a calculated risk.

There were some important minus factors to be reckoned with, too. The most obvious of these was my lack of sales ability. I do not have a gregarious nature, in fact, I used to be rather shy. Those who know me now may doubt this, but it was true then. I was also well aware of my limited capital. Like most people, I like to spend money, and I had never been very good about saving. However, I figured I had enough put aside to carry me through the trial period if I were frugal.

LEONORE CANN, CPA, has conducted her own public accounting practice in Chicago, Illinois for the past sixteen years after five years experience working on the staff of Touche, Ross, Bailey & Smart. She completed her accounting training at night school while working days as budget accountant at the University of Chicago and received her Illinois CPA certificate in 1944.

My Market Area

Service enterprises were my natural target—insurance, advertising, law offices, and such. I started with insurance agencies because I had once worked for a small, successful agency. This employer had been rather sophisticated about accounting matters, and I had initially assumed that all agencies were similar in this respect. I learned quickly that the reverse was generally the rule.

Insurance men are among the world's best salesmen, and, since opposites attract, I figured that we were made for each other. Insurance agencies certainly needed my kind of service, and since a good number of them were located in a concentrated area (which eliminated a transportation problem for me), this appeared to be the logical place to start.

I had several ideas about how to approach this market, so I rented some office space, bought some equipment, sent out announcements, and gave myself a four-month deadline within which to determine whether or not this venture was likely to succeed.

The Clients

It is a funny thing about people. Before I commenced this venture, I had called upon several likely prospects. A few seemed very interested, and I inferred that they would be delighted to avail themselves of my services just as soon as I was set up. But, when I opened my shop and was ready to do business, they all stayed cautiously on the sidelines and waited to see if I was going to survive. I do not blame them, but it *was* disconcerting.

I stuck it out and eventually a few things began to come in. I had time on my hands, and I used it to call on some of my accounting friends and acquaintances. As it turned out, other accountants became my best source of referrals. I took on my share of cats and dogs, and in between there were some good ones.

Personnel and Problems

Eventually, I developed a solid core of dependables and hired my first assistant, an excellent girl I had known for some years. I expanded a little more, took on larger space, acquired more equipment, and hired more girls. My ideas on systems were working out well, and I continued to refine and develop them. My tax business also increased, and things were moving along nicely.

But, trouble was brewing. The ideal assistant I needed for this work was a girl with plenty of native intelligence, one or two years of accounting at the college level, and the ability to type. When I was able to find such a girl, I spent a lot of time training her, and then sent her out on various assignments. She would post the journals at the client's location, and then complete the ledger postings and financial statement preparation in the office.

The girls were well paid, and they liked their work. The trouble was, they had a bad habit of either getting married and moving out of the city, or getting pregnant—or both. I found myself enmeshed in all the headaches and heartaches that accompany the seeking out of competent help. It was this that eventually defeated me. I finally reached a point where I figured I'd had it. In 1962, when my last good assistant informed me that the stork was on its way, I acknowledged defeat. I made plans for closing the office and decided to work solo thereafter.

Enter Data Processing

However, some five or six years before this ultimate defeat, I had begun investigating data processing. There were a number of stock systems available, mostly on punched tape, but none of them had the flexibility and versatility I felt I needed.

I finally found one processor who had developed what seemed to be the nucleus of a good approach, and I spent a good amount of time working with him to whip it into shape. I now had a pretty good DP system, but began having problems with the processor. He was having personal problems of his own and eventually he moved to the west coast.

I now proceeded to learn—the hard way—about the varying quality of service bureaus. I finally got a lucky break and lined up with a well managed service bureau that has been handling my processing work for a good number of years now.

The greatest problem to be faced in working with data processing is one of communication. DP people tend to be hypnotized by their wonderful machines and enjoy putting them through their paces. Unfortunately, they seldom grasp the importance of internal control procedures as understood by the accountant. Accountants, on the other hand,—at least until the last few years—have tended to take an ostrich-like approach toward DP, hoping that if they ignore it, maybe it will go away.

The advanced use of DP in industry has finally forced accountants to recognize how essential it is to learn to work with this medium. There are some excellent training courses now available through the AICPA professional development program. I have attended all four that have become available in this area thus far, and recommend them highly. The larger CPA firms are including something similar in their staff training programs, and many in in-

MILLION DOLLAR LATHE

The following item that appeared some time ago in the magazine COMMERCE seems particularly appropriate now:

Some years ago Thompson Products bought a lathe. The cost was $12,000. Under Federal tax laws the cost could be depreciated over a 14-year period. So when the lathe had to be replaced, Thompson had $12,000 set aside, plus an additional $1,000 which was the resale value of the old lathe.

However, the same model lathe was now selling for $35,000, but with attachments to meet the advanced needs of the industry it cost $67,000.

So the company found itself with only $13,000 to buy a $67,000 piece of equipment.

The additional $54,000 had to come from profits. But in order to clear $54,000, Thompson had to make a profit of $112,000 before taxes, and in order to make that much profit, the company had to sell more than $1,250,000 worth of products.

It took a million and a quarter dollars of sales for the company to replace one lathe, and not one cent went to the stockholder!

A million and a quarter dollars to replace one machine so three Thompson employees—one shift—could continue working!

This is something to think about when agitators scream about high corporate profits. No profits, no new machines, no jobs.

From BREVITS—By Vance, Sanders & Company, Inc.

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dustry are intimately familiar with computerized recordkeeping.

My System

The system I use for my write-up work is basically punched card with accent on the use of alpha description for transaction detail. This costs more, but the cost is more than offset by the amount of my time that it saves. Most tape systems use alphabetic account titles and statement captions, but the detail transactions are identified by numeric reference only. For many situations this is quite adequate. However, my primary objective is to save on man-hours, not machine time. When the print-out includes alphabetic descriptions it is easy to review the accounts by scanning.

It was my insistence on alphabetic descriptions that caused many of my earlier clashes with service bureaus. They wanted to make everything numeric because that made things easier for them; I wanted greater use of alpha because that made things easier for me.

When this procedure was first set up, it was processed on an IBM 407. Shortly thereafter, the service bureau converted to a 1401 computer and we were able to work certain refinements into the procedure. They are now processing on an IBM 360, and I have some ideas on further refinements that I would like to develop, but I haven't had the time to follow up on this up to now. I will get to it eventually.

In outline, my system works like this. The client sends me copies of his checks and information concerning his cash receipts. The bank sends the bank statement and cancelled checks directly to me. I batch the data and while so doing, reconcile the bank statement. The bank statement is then returned to the client along with a photocopy of the reconciliation.

The batched data goes to the service bureau. The service bureau returns the data to me along with a preliminary ledger run which we call a "trial balance." I scan for errors, make adjustments, and then order the final ledger and financial statements. Updated earnings records are also prepared quarterly.

In relating this to a manual system, you might say I am doing a combination of bookkeeping and internal auditing. However, the computer does all the posting, footing, and balancing for me. It also drafts, types and proofreads the financial statements. My function has now become one of review and control.

In setting up a new job, the first thing I do is design a chart of accounts for this one client exclusively. I then design the financial statement format to be used. This information is then assembled into a special listing which we refer to as the "activation." The service bureau programs from this.

When I made the decision to switch from manual to DP, I decided that it had to be all or nothing if this was to work successfully. The first account I selected involved a balance sheet with four departmental income reports, plus a subsidiary record. I figured that if I could get this one to work satisfactorily, the simpler ones would be comparatively easy.

Client Acceptance

There was no problem with client acceptance because I absorbed the cost of conversion—which was substantial. Of course, new clients must pay for their activation, but I felt that the old ones had already paid an equivalent cost when they were set up on a manual basis. At this stage, the conversion was for my benefit more than the client's.

The main change the client had to accept at the outset was that he now had to use three-part snap-out voucher checks instead of his old, familiar check-book with stubs, and he adjusted without too much difficulty. When I informed the client about the change I used a positive approach; I told him this is what we were going to do. Since most of the clients did not know what I was talking about anyway, they did not care how I processed the work as long as it did not cost them any more money.

Essential Control

More and more accountants across the country are using some form of data processing for their write-up work with varying degrees of success. Although much depends upon the quality of the service bureau, a great deal also depends upon how well the accountant has organized the flow of work within his own office. The planning and upkeep of client files, the observance of points of control, the use of check-off lists, and the adherence to time schedules—all of these are just as important as the actual processing.

The objective is, of course, to cut down on the accountant's time as much as possible without in any way interfering with the thoroughness with which he can review and control the work.

There are a few short-cut techniques that I use in certain situations that are as convenient for manual bookkeeping as they are for DP methods. For example, I use a check-off list in reconciling bank statements; this eliminates the need to sort the checks. I also reverse tradition by recording all transactions on a cash basis, and then adjust to an accrual basis by journal entry. The previous accrual can then be reversed and the new accrual set up as of the close of each reporting period.

This same technique can also be used with certain types of receivables, and has long been standard procedure for adjusting inventories and cost of sales.

Admittedly, these short-cut techniques have their deficiencies and must be handled with due care. However, the more traditional methods also have their deficiencies, and just as often come to grief in the hands of the unskilled.

In Conclusion

As you can see, self-employment offers many challenges and little opportunity for boredom. What is the attraction? It isn't the money. The money is there, all right, but it still requires hard work and personal discipline to earn it. Primarily, the appeal springs from intangible satisfactions. Despite my problems—and who does not have problems—I consider myself one of the lucky ones who discovered a very pleasant and interesting way to earn a living.

BY SUBSTITUTING ADDITION

(continued from page 4)

but also can, completely be changed. Provided that we hold high the great red banner of the thought of Mao Tse-tung, eliminate superstitions, liberate our minds, and dare to innovate and create, then we shall be able to conquer this solid 'fortress' of accounting work and win."

"In accordance with the practical state of business operation of enterprises and changes in State property, it employs the language—'addition' and 'subtraction'—most familiar to people in keeping accounts. If a transaction is an addition in quantity, it is entered in the 'addition' side. If it is a subtraction of quantity, it is entered in the 'subtraction' side. This everybody can understand and do."

And what does Professor Kircher think of the Red's didactic?

"It is not easy to tell," he writes, "whether the Chinese suggestion really will have some meritorious aspects. Certainly we must admit that for centuries accountants have had to meet complaints that 'debit and credit' is unnecessarily complicated for the average layman, and even for many managers. But then most managers never see the actual accounts (nor do modern financial executives, particularly with computer systems). Therefore, whether the mechanics of handling an account uses the terms 'debit and credit' or 'addition and subtraction' does not seem terribly important any longer."

An accountant with sufficient imagination to see things clearly describes the public practitioner's role in the ordinary course of human events.

JOB DESCRIPTION

By Charma Leonard
Columbus, Ohio

There was a moment recently when I allowed myself the luxury of just sitting quietly, and my mind was filled with meditative musings.

Suddenly, there appeared beside me a slight and shadowy figure, whose familiarity startled me. As I searched the youthful face, I realized who she was. The girl that I used to be was visiting the woman she had become.

"What have you done with my life?" she asked. "Where is the New York penthouse and the summer home by the sea? Where are the best-selling novels, and the movies made from them?"

I must admit I lowered my eyes before her reproachful gaze, and hung my head. "Well, you see," I stuttered, "I started out as a news reporter, I really did. But, I was in love and I had to quit my job to join my husband before he went overseas. You remember how it was during the war?"

"And I couldn't find a writing job in New Jersey, so I became a secretary. You'll have to admit that a steady salary is more comfortable than starving to write a book. I did enjoy being a 'Girl Friday' too, until one day I typed a financial statement."

As I met my youthful visitor's eyes once more, I could see no comprehension. I cowered again, and groped for words of explanation. I did want her pleased with me.

"And then my babies arrived, and I was enveloped in a maternal mist of diapers, bottles, colic, scales, baby laughter and delightful dreams for their future. Inevitably, of course, the day dawned when I realized I must pursue my own dreams, but I do confess the idea for 'The Great American Novel' had not materialized, so I picked up my accounting studies," I continued apologetically.

"Opportunities presented themselves, and one thing led to another, and suddenly I was a Public Accountant with a calculator and a business of my own." My own revelations began to enlighten me. I lifted my head and met her eyes head-on, feeling no further need to apologize.

"I realize that I compromised with time and circumstances, but I do tell stories still, you know. You see, as the figures flow from journal to ledger and through calculator to statement, they tell the story of business—its initial investment, where it comes from, source and amount of income, and what happens to it."

"Sometimes, I elaborate with percentages and other supplemental details. Many times my stories have a surprise ending, and there are times when my readers wait in suspense from month to month for my current installments. It is true that the harsh black and white reality of my figures do not permit poetry, but my profession seeks the truth, and, while in pursuit of it, we become acquainted with the dreams, triumphs and despair behind our figures."

"During the tax seasons my stories are short, biographical sketches of individuals. All important events in a given year are included in these stories—new jobs, increased income, new babies, new addresses, illnesses, major casualties and deaths."

"Once in a while I write a detective story when a cheater is discovered somewhere. This takes real sleuthing, and much information has to be accumulated to substantiate a fraud."

I smiled indulgently at my youthful guest. "I know my life doesn't compare to the glamorous existence of a best-selling author, and my suburban ranch is no match for a New York penthouse. But, I have learned a great deal since you and I parted company. I know I am not as smart as you thought I was. I do not worry about making mistakes as much as you did, because life and accounting have taught me that there is always something you can do about them."

"I have made so many fine friends, and learned the peculiarities of many businesses. My income has been good, and I have been able to arrange my work hours so that it conflicts the least with my home and family. In fact, you know, I could write a book," I said. This comment, however, was lost upon my impatient friend, who had departed into the deepening shadows.

THEORY AND PRACTICE

Current Studies and Concepts

EILEEN T. CORCORAN, CPA, Special Editor
Arthur Young & Company
Chicago, Illinois

ACCOUNTANTS' LEGAL LIABILITY

A few months ago, The American Institute of Certified Public Accountants conducted a seminar on accountants' legal liability in New York City. Leonard Savoie, Executive Vice President of AICPA, chaired the session. One of the principal speakers was David B. Isbell, a partner in the law firm of Covington & Burling, legal counsel to the AICPA.

Much of Mr. Isbell's talk was devoted to establishing an understanding of the historic Continental Vending criminal case, a subject in which many of this magazine's readers are undoubtedly interested.

Background

Continental Vending Machine Corp. manufactured automatic vending machines of various types and operated vending machines in plant cafeterias and other locations throughout the country. It became a client of Lybrand, Ross Bros. & Montgomery in the early 1950s.

Valley Commercial Corporation was a finance company formed by the president of Continental, Harold Roth, and certain other shareholders of Continental for the purpose of financing the sale of machines produced by Continental and for other factoring and financing business. Valley's accounts were examined by a small New York firm of certified public accountants.

The actions brought against Lybrand and its personnel relate to Continental's financial statements for the year ended September 30, 1962. The important problem in certifying the accounts was the collectibility of a $3.5 million receivable from Valley for monies loaned by Continental to Valley. Lybrand was informed late in the Continental audit that Valley's audited financial statements would not be available, that Valley was unable to pay the amount due to Continental and that Roth would collateralize the debt. When Roth submitted evidence of furnishing of collateral (stocks and bonds including significant holdings of securities in Continental) against the receivable in mid-February 1963, the accounts were released and mailed to shareholders.

By the end of February when an extension for filing the Company's Form 10K expired, the value of the collateral had decreased considerably. Also the Internal Revenue Service had taken steps to obtain a lien on Continental's assets. Accordingly, Lybrand took the position that it could not sign its report in the Company's Form 10K.

In mid-March 1963, the SEC halted trading in Continental's securities. Announcements in the press revealed that Continental had loaned $3.5 million to Valley which in turn had loaned similar amounts to Roth, and that Roth was unable to repay his borrowings which precluded Valley from repaying Continental.

In April 1963, based on the SEC's contention that Continental's funds had been misappropriated, a conservator was appointed to conduct the affairs of the company

A court-ordered reexamination of Continental's accounts, performed by Main LaFrentz & Company, led to special write-offs of $12,275,000 (including the Valley loan), thereby increasing the company's fiscal 1962 loss to $13,425,000 and eliminating the shareholders' equity in the company. The adjusted financial statements were reported in Continental's form 10K. On July 15, the company was placed into reorganization under Chapter 10 of the Federal Bankruptcy Act.

In July 1965 the court-appointed trustee for the bankrupt company filed a civil suit against Roth, Lybrand and Meadow Brook National Bank (one of the banks that had provided Continental with temporary funds in September 1962), charging embezzlement and claiming damages of $41,000,000. The suit charged the defendants with a "scheme to defraud" and with "concealment and misrepresentations" in the company's reports from 1958 to 1962.

This suit, as it related to Lybrand, was settled in October 1967 by Lybrand's payment of $1,950,000 and release of $140,000 of claims against Continental. Lybrand consistently denied the allegations under this action and said it agreed to the settlement solely to avoid the expense of protracted litigation. (About a year earlier, Meadow Brook had settled the claim against it by payment of $150,000 and forgiveness of $1,843,739 owed to the bank by Continental.)

The Criminal Case

The indictment

In October 1966, Carl Simon and Robert Kaiser, partners in Lybrand, and Melvin Fishman, a manager with the firm and Roth were indicted on charges of conspiracy to defraud stockholders and creditors. The Lybrand firm was mentioned as a co-conspirator but not a defendant. Charges under the indictment were as follows:

1. The defendants and their co-conspirators conspired (with each other and the co-conspirators) to commit offenses against the United States and, in matters (annual report to shareholders and Form 10K) within the jurisdiction of an agency of the United States (SEC), conspired to make false and fraudulent statements and to conceal material facts. Further, for the purposes of executing the scheme and artifice, the parties caused matter to be delivered to the Post Office Department to be deposited in post offices.
2. The defendants and their co-conspirators devised a scheme to defraud Continental's stockholders, debenture holders and creditors (including those prospective) and the financial community. As a part of this scheme Lybrand would report on Continental's financial condition shown by its balance sheet which was false and misleading.
3. The defendants, for the purpose of executing the scheme to defraud, did willfully and knowingly place annual reports to stockholders in the Post Office to be mailed to various named individuals and brokerage firms.

Certain of the charges concerning the use of the Post Office Department to mail copies of the annual reports and certain details of the other charges were subsequently withdrawn.

Accounting and reporting considerations

The central issues in the case related to the disclosures made in Note 2 to the 1962 financial statements, which reads as follows:

"The amount receivable from Valley Commercial Corp. (an affiliated company of which Mr. Harold Roth is an officer, director and stockholder) bears interest at 12% a year. Such amount, less the balance of the notes payable to that company, is secured by the assignment to the Company of Valley's equity in certain marketable securities. As of February 15, 1963, the amount of such equity at current market quotations exceeded the net amount receivable."

Points relating to Note 2, emphasized by the prosecution throughout the proceedings included (1) the error in referring to a netting of the affiliated receivables ($3.5 million) and payables ($1.2 million) when the affiliate had discounted the payable (its receivable from Continental) and the receivables and payables were shown gross on the balance sheet, (2) the inadequacy of the value of the collateral ($2.9 million) in relation to the receivables from Valley, (3) the lack of marketability of the collateral due to the need for a registration statement to sell much of it, (4) the failure to disclose that the collateral included a substantial amount of Continental's stocks and bonds and (5) the failure to disclose that the monies loaned to Valley had flowed to Roth.

The prosecution contended that Lybrand should have examined the books of Valley, a procedure which would have revealed the disposition of the funds.

Outcome

The first trial of the Lybrand people resulted in a hung jury. Their second jury trial resulted in conviction. At the time this material is being written, appeals are pending. Roth pleaded guilty to the conspiracy charge prior to the accountants' first trial and testified for the government at both trials.

Observations of Mr. Isbell and lessons that he believed the case taught were as follows:

1. The case points out the exposure of accountants to criminal sanctions for conduct not governed by specific, well-recognized professional requirements. (Requirements that the reporting accountants examine the books of an affiliate and that the nature of collateral be disclosed in the notes to the financial statements do not exist).
2. Juries, which either party in a suit can demand, may not be able to comprehend technical matters such as were presented in this case, and may suffer from the prohibition against notes, questions and discussion among themselves as the case progresses.
3. A conspiracy charge need not be supported by evidence that someone was injured or that the objective of the conspiracy was accomplished. Evidence that a scheme existed and that there had been overt action to effect the scheme is the only support that is needed. A civil action based on the facts presented in the Continental case probably would not have succeeded.
4. The hazards of inconsistencies in testimony in successive legal proceedings (the Lybrand people had testified in many legal proceedings prior to their indictments) can be reduced by taking maximum precautions to testify correctly and by admitting to a lack

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TAX FORUM

DORIS L. BOSWORTH, CPA, Editor
Peat, Marwick, Mitchell & Co.
New York, New York

UPDATING THE FORUM

Last year your attention was drawn to certain cases and rulings that would have a significant effect on tax planning. Two points covered must now be reviewed in the light of subsequent Revenue Rulings.

Charitable contributions

Rev. Rul. 68-658, IRB 1968-53,10 has superceded Rev. Rul. 68-314 previously discussed. The initial ruling was concerned with charitable contributions made by a corporation to a foundation receiving its entire support from the sole shareholder. Such contribution was deemed to be a dividend to the shareholder, and a contribution by him to the foundation. Based on the fact situation given in the ruling, this column expressed concern as to all contributions made by closely held corporations in the future.

Happily, the detailed statement of facts given in the current ruling to clarify the Treasury Department's position allay the fears of your editor. In the instant case the corporation transferred more than one-half of their net assets; which, in view of nominal liabilities represented almost 50% of net worth, and the fair market value of those assets was in excess of five percent of taxable income in the year of transfer.

An extreme situation such as this would not cast doubt on the tax treatment of normal contributions made by closely held corporations, even if the charity was one also favored by the shareholders.

Trust income to minors

In discussing some of the points covered in our Estate Planning seminar at the Washington meeting it was pointed out that the Treasury Department had acquiesced to three Tax Court decisions involving 2503(c) trusts. Based on this action taxpayers now had the green light to treat accumulated income in trusts for minors as gifts of a present interest, even though the principal did not accrue to the beneficiary until some time after attainment of the age 21.

This was important in view of the availability of the $3,000 annual exclusion in arriving at taxable gifts.

The Treasury Department has now carried this reversal of policy one step further in Rev. Rul. 68-670, IRB 1968-53,16. The fact situation the Service was required to rule upon was a combination 2503(c) trust and a short term 673 trust. The donor established a trust whereby income might be accumulated during the period of minority but must be distributed to the beneficiary at age 21, or his estate in the event of death prior to that date. Subsequent thereto for a period of ten years and 30 days or until the beneficiaries death, whichever occurred sooner, the income would be distributed to him annually, with principal reverting to the donor upon termination of the trust. The right to receive income during the period of minority was held to be a gift of a present interest, subject to the annual exclusion, even though the beneficiary had no interest in the trust corpus.

This ruling is also interesting in that it demonstrates clearly the utilization of two important tax planning tools. The donor has removed income from his top tax bracket to make available more after-tax dollars for the beneficiary—first in the 2503(c) trust, and later in the period when the beneficiary's income presumably would be in the lower tax brackets. At the same time the donor has not relinquished control of the trust corpus. The advantages of such a program are obvious.

Tax Trials and Tribulations

The Internal Revenue Service in Rev. Rul. 68-631, IRB 1968-50,13 has started off the new year with the revival of an old headache, particularly in the transitional period. The immediate effect of this ruling would seem to be the precipitation of filing many claims for refund due to its retroactive effect with respect to tax years beginning after January 1, 1965.

We are referring to the change in policy with regard to the proper time for deducting State taxes in the case of an accrual basis taxpayer. Since 1957 the simplified tax treatment of State tax deficiencies was permitted in accordance with Rev. Rul. 57-105, CB 1957-1, 193. The Service took the position that with the initial filing of State tax returns taxpayer was disclaiming liability for any greater tax than that indicated. Subsequent deficiencies due to a Federal examination came within the purview of the contested liability rule and as such, were deductible in the year paid.

The position presently being taken, based on cases quoted in the ruling, denies the "contest" theory unless there is an overt act involved, such as the lodging of a protest or the institution of Court proceedings. State tax deficiencies arising as the result of a Federal audit will now be treated as relating back to the year for which they were imposed.

In all future examinations by the Treasury Department the agent will have to compute and allow as a deduction the State tax deficiencies predicated on his other adjustments to taxable income. While this presents no great problem, to the extent that there are additional State taxes included in the year under review relating back to years beginning January 1, 1965 through the year immediately preceding the year being examined, such deductions presumably will have to be eliminated and claims for refund filed for the proper year.

This necessitates an analysis of the tax expense account of any returns of accrual basis taxpayers that have not as yet been examined by the Treasury Department. If the amount involved is of sufficient materiality to warrant further action, the filing of protective claims for prior years is indicated.

ACCOUNTANTS' LEGAL LIABILITY

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of knowledge whenever this is the case.

5. Working papers should always be left in order with the answers to all questions and doubts clearly documented and all extraneous material eliminated. A careful post-audit review should aid in achieving these ends. Auditors have a current responsibility for information contained in prior years' working papers to the extent pertinent to the current examination.
6. Unsavory clients can be a problem to an accountant.
7. If the appeals in the Continental case are unsuccessful, the AICPA may have to establish guidelines in matters such as indirect loans to officers and the use of a company's stock as collateral for recorded assets.
8. See your legal counsel early and often. Never testify in court or in pre-trial proceedings without your attorney and a witness being present.

"INFORMATION SYSTEMS FOR MANAGEMENT PLANNING AND CONTROL," Thomas R. Prince, Richard D. Irwin, Inc., Homewood, Illinois, 1966, 408 pages, approximately $11.50.

Ever since the computer revolution, the accounting literature has discussed the future role of the accountant as an expanded one, with the accountant responsible for a total information system rather than just an accounting system. Or, as Thomas R. Prince states, the transition is from "a traditional *accounting system* to an *economic activity system* which encompasses all types of economic data."

INFORMATION SYSTEMS FOR MANAGEMENT PLANNING AND CONTROL will provide the accountant with an understanding of a total information system and will do so on a broad, conceptual basis without burdening the reader with all the minute, technical details accompanying mathematical formulas and computer programs. It is both easy to read and to understand.

Written by an accountant, its approach is to start with a discussion of traditional information systems—responsibility accounting systems and profitability accounting systems. The book next treats information systems for production, inventory management, inventory control, marketing management, sales analysis, and credit control. From there, the reader is introduced to total information systems and simulation. Problems of internal control and external audit of these advanced information systems are also discussed.

To fully appreciate the book, a reader should have a background in cost accounting (including standard costing), budgeting, and business organization. The book is not intended to make him technically competent to write a computer program for a simulation of his firm. It does provide a good basic background and understanding of a total information system and equips the reader with a more knowledgeable appreciation for the accountant's future role.

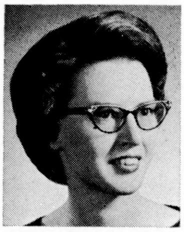
The author is honest and practical in his approach. He cites examples of firms whose computerized information systems were anything but successful and tells why. Cases are provided at the end of each chapter so that the reader can apply the theoretical discussion in the chapter to a practical situation.

For the accountant interested in his future, this book is definitely worthwhile.

Dr. Bernadine Meyer
Duquesne University

REVIEWS

Writings in Accounting



PHYLLIS E. PETERS, CPA, Editor
Touche, Ross, Bailey & Smart
Detroit, Michigan

"TAX FACTORS IN BUSINESS DECISIONS," Dan Throop Smith; Prentice-Hall, Inc., Englewood Cliffs, N.J., 1968; 301 pages; $10.50.

The person with only a modest background in taxation who is mystified by the complex and seemingly illogical provisions of the Internal Revenue Code can gain considerable understanding of United States tax laws from this book. The reader gradually realizes that those responsible for tax policy face a difficult task in attempting to achieve simplicity and at the same time an equitable distribution of the tax burden. Many of the complex provisions seem to be the result of plugging loopholes which reluctant taxpayers have discovered and used.

Any person that hopes to build his assets so that later years may be spent in a degree of comfort needs to know the effect his decisions will have on his income taxes; and if he has a further desire to pass along some assets to his descendants, he will also benefit by an understanding of estate and gift taxes.

While the average individual may feel that those in higher income brackets give too much emphasis to tax matters, the author has noted that "Whenever an income tax rate exceeds 50 per cent, it becomes more important to save a dollar of taxes than to earn a dollar of income, a fact which cannot be expected to go unnoticed by those affected."

The author explains the factors which affect executive salaries, personal investments, estate planning, choosing the form of business organization, and many other situations which confront the modern business. The author is adept at showing the development of the Revenue Code as a means of extracting revenue; as a method of encouraging the new business, the smaller company, the farmer, and the extractive industries; and also as another measure to control the economy of the nation.

The book is not suitable as a current reference work for the tax specialist, and all readers should be aware that rates and various specific provisions of the Code will undoubtedly change within a very short time. But the book does provide an easy means of developing an understanding of the constantly changing income tax laws and the pressures which cause it to change.

Margaret L. Bailey, CPA
Bailey & Wylie

"FINANCIAL STATEMENTS: FORM, ANALYSIS, AND INTERPRETATION," Ralph Dale Kennedy and Stewart Yarwood McMullen; Richard D. Irwin, Inc., Homewood, Illinois, 1968; 728 pages.

This fifth edition of a book first published in 1946 outlines techniques for the analysis and interpretation of financial statements of manufacturing and commercial enterprises. According to the authors, the objectives of the text are: "(1) To explain the form, content, and general principles governing the construction of financial statements. (2) To discuss valuation, amortization, and income-determination problems. (3) To explain the methods of analyzing and interpreting financial and operating data. In brief, it is the objective of this book to present a study of the significance and limitations of financial statements and to show how to analyze them." (pp. 31, 32.)

The volume consists of four sections. Part I (Chapters 1 through 7) reviews general principles of financial accounting and statement construction, and also includes a chapter on consolidated statements. Data in this section would be familiar to practicing accountants. Therefore, Part I can be by-passed by those with a working knowledge of statement preparation.

Part II (Chapters 8 through 17) develops basic techniques of financial statement analysis. Included in this section are chapters on trend percentages, standard ratios, ratio analysis of working capital, analysis of long-term financial condition, and analysis of income.

Comparative financial statements and common-size statements also are discussed together with working capital, the cash-flow statement, and the statement of sources and uses of working capital. Much valuable information is presented in this section; and the reviewer was impressed with the comprehensive coverage of topics and with the detailed illustrations included by the authors.

The third part (Chapters 18 through 22) considers the problem of price level changes, a topic of continuing importance in today's economic climate. These chapters contain a very lucid discussion of price level changes and the effects of inflation upon assets, revenues, costs and expenses. Adjustments for price level changes form the basic material of several chapters; and in general, the presentation is well executed.

The authors refuse to take a position on the accounting controversy concerning the extent to which price level changes should be reflected in the accounts. They do insist, however, that an analyst cannot overlook the implications of price level changes in the evaluation of statements. They also note that the extent of distortion of company statements is directly proportional to the inflationary or deflationary levels during the periods in which the statement figures arose.

The final section of the book (Chapters 23 through 31) illustrates analytical techniques for typical businesses, including a grocery store, a department store, and an industrial manufacturer. The discussion concludes with an analysis of the statements of air carriers, railroads, public utilities, and commercial banks.

No attempt is made to standardize analytical procedures. Indeed, the authors emphasize that differing conditions require a flexible approach to statement analysis. For the first time, the authors have made extensive use of the AICPA publication, "ACCOUNTING TRENDS AND TECHNIQUES" and have noted the recent activities and influence of the Accounting Principles Board.

In general, this reviewer believes the book would be a valuable addition to professional libraries. The section on price level changes is especially useful, and the chapters on basic techniques of statement analysis are well written and relevant for managers, accountants, and bankers as well as for investors.

The volume is designed more as a reference work than as a basic text for college courses, although discussion questions and problems are available in a supplementary paperbound book. The text is a valuable source of information for those interested in statement analysis and interpretation.

Linda H. Kistler, CPA
Lowell Technological Institute

"*ACCOUNTING FUNCTION AND MOTIVATION*," Herbert J. Wieser, CPA, MSU BUSINESS TOPICS, Volume 16, No. 1, Winter 1968.

The author's thesis is that the accounting function has a great and often unrecognized effect upon the motivation and morale of employees—frequently a negative and discouraging effect! For instance, he reports that in the eyes of some employees the accountant's role is a "policing" one; he discusses the lowering of morale and the discouragement resulting when an accounting system attributes costs over which an individual has no control to the department for which that individual is responsible; he states that budgetary practices may have the effect of uniting employees *against* management.

Mr. Wieser offers some concrete suggestions for improving the situation; these include responsibility accounting, the contribution approach to cost allocation, participation of employees in budget preparation, etc.

The article is well worth reading, for it emphasizes a fact which is so very easy for the accountant to overlook—that reactions of other employees to the accounting function are often far from what the accountant would like them to be, and that the accountant must not only be aware of this but must take positive steps to guard against it.

"*DISCUSSION, CONFERENCE, AND GROUP PROCESS*," Halbert E. Gulley, Henry Holt and Company, New York, 1960, 378 pages.

Participation in group discussions, in conferences, and in meetings is not only an occupational requirement for the accountant but also a vital aspect of membership in professional societies such as ASWA and AWSCPA. Here is a book with a practical, helpful, down-to-earth approach to the subject—one that emphasizes the "how to" rather than just pure theory.

The author treats such subjects as characteristics of groups—interpersonal relations within a group—problem-solving sessions as well as information-giving sessions—group leadership and leadership problems—participation in large as well as in small groups—language and speech skills—use of reasoning in discussion—resolving conflicts within a group—ethical and parliamentary considerations—and methods of evaluating group effectiveness.

Easy to read and easy to understand, the book has excellent suggestions and recommendations for those interested in improving their effectiveness in groups.

Dr. Bernadine Meyer, Duquesne University